No special regulations prevent moving crude by rail: briefing note to Harper

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OTTAWA – Rail companies face no regulatory hurdles for hauling western Canadian crude oil to markets, but pipelines – which do face such hurdles – remain more efficient, says a briefing note for the prime minister.

"Pipelines are generally the most efficient and cost-effective means by which to transport large quantities of oil over significant overland distances," says the note.

"In addition, pipeline operators in North America are strictly regulated and have a strong overall safety record."

The document, dated Feb. 8, briefed Stephen Harper on the potential for railways to haul crude to west coast ports for tanker shipment to Asia-Pacific countries. The federal government has been pressing for options to diversify oil exports beyond the United States, Canada's biggest foreign energy customer.

The document, which has significant redactions, was obtained by The Canadian Press under the Access to Information Act.

Signed by the clerk of the Privy Council, Wayne Wouters, the update was in response to growing opposition to applications by Enbridge (TSX:ENB) and Kinder Morgan to construct pipelines to pump western crude, including bitumen from the oilsands, to marine terminals in British Columbia.

"While rail transport could play some role in facilitating market access for Canadian producers, this mode will not readily substitute for the 525,000 barrels per day that could flow through the Northern Gateway pipeline, or the 300,000+ barrels per day additional capacity associated with Kinder Morgan's proposed Trans Mountain pipeline expansion."

The note says that Transport Canada officials have confirmed there are no regulatory hurdles for transporting crude by rail, but hauling oil to the West Coast would still require new marine terminals and tanker traffic, both subject to lengthy environmental assessments.

The note cites in some detail efforts by Canadian National Railway Co. (TSX:CNR), or CN, to create a pipeline-on-rail business model with Calgary-based Altex Energy Ltd., referring to advantages touted by CN, including flexibility and scalability.

The briefing note claims that “CN is proposing to voluntarily use double-hulled rail cars for the transport of crude oil” as a precaution against spills. But CN spokesman Mark Hallman, who declined to comment directly on the document, noted that “CN does not supply tank cars for the transportation of crude oil by rail – the tank cars are supplied by rail shippers.”

Rival Canadian Pacific (TSX:CP), which is not specifically cited in the released version of the document, moved some 8.3 million barrels of crude oil in 2011, and expects to hit 44.8 million barrels next year – a year earlier than projections, says spokesman Ed Greenberg. The calculation is based on about 640 barrels for each rail car.

“Our crude volumes continue to grow at a pace that exceeds earlier expectations,” he said.

Hallman said CN moved some 3.2 million barrels of crude in 2011, and is expected to hit 19.2 million barrels by the end of this year, using the same 640 barrels-per-car ratio. The company has said it could eventually handle 200,000 barrels a day or more.

“CN sees further opportunities for growth in its crude oil business,” he said. “Rail will continue to supplement existing and new pipelines, not replace pipelines.”

But without West Coast marine terminals to allow tanker traffic to the Asia-Pacific, rail can feed only North American refineries.

Growing doubts about the success of a proposed crude pipeline to B.C.’s west coast has focused attention on alternatives, such as pipelines to ship western crude to East Coast refineries.

Former Bank of Canada governor David Dodge has suggested the federal government should subsidize west-to-east crude pipelines, but Natural Resources Minister Joe Oliver has said any such projects must be commercially viable on their own.